[COMMITTEE PRINT]

TAX REDUCTION PROGRAM

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SUMMARY OF TESTIMONY ON H.R. 3477 AND THE ADMINISTRATION'S ECONOMIC STIMULUS PROGRAM

PREPARED FOR THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

BY THE STAFF ON THE

JOINT COMMITTEE ON TAXATION

AND THE

CONGRESSIONAL RESEARCH SERVICE

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INTRODUCTION

This pamphlet summarizes the testimony received by the Committee on Finance during its public hearings on H.R. 3477 and the mony from the general public on March 9–11, 1977, as well as statements submitted for the record (as of March 11). The summary of testimony is organized into three general categories: (1) comments on economic conditions, (2) comments on tax reduction proposals (divided into individual and business tax cut proposals), and (3) comments on expenditure proposals.

The Administration's tax reduction program, in general, includes a $50 per person tax refund, an increase in the standard deduction, revision of the tax tables, and an optional increase in the investment tax credit or a payroll tax credit for business. In addition, the Administration's economic stimulus program includes a $50 payment to social security and certain other recipients, and increased outlays in fiscal 1977 and 1978 for countercyclical revenue sharing, public works, public service employment, and job training. The specific proposals are mentioned below under the appropriate heading. These proposals are as presented in testimony on March 8, 1977.

This summary of testimony was prepared primarily by the staff of the Economics Division, Congressional Research Service: Donald Kiefer, Robert Tannenwald, Ann Marley, and Jane Gravelle.

I. COMMENTS ON GENERAL ECONOMIC CONDITIONS

Charles Stewart, President, Machinery and Allied Products (Mar. 9)

Accepts the need for a temporary, limited stimulative package provided it does not result in significant postponement of substantial long-term tax revision.

Albert H. Cox, President, Merrill Lynch Economics, Inc. (Mar. 9)

Indicates that by most measures, the economy's performance since the recession ended has been somewhat better than projected. States that the two primary disappointing indicators are business investment, attributable chiefly to low business confidence, and the unemployment rate, due largely to the rapid growth in the labor force and higher unemployment benefits. Contends the "economic pause", which crystalized the consensus regarding the need for additional government stimulus, may have been mostly illusory, mainly reflecting inventory changes, while real final demand actually increased throughout 1976.

Believes a $31 billion stimulus program may be inflationary. Indicates that underutilization of economic capacity my not be as great as is commonly thought. Asserts that capacity utilization rates calculated by the Commerce Department and the Federal Reserve overstate potential capacity and divert attention from the problem of inflationary bottlenecks. Also believes the available labor pool is smaller than thought because the "hardship unemployment rate" (unemployed 15 weeks or more) is only 2.4 percent. Claims the inflation rate is already accelerating and forecasts 6.5 percent inflation by fourth quarter 1977 and 6.9 percent by fourth quarter 1978.

Charls E. Walker, Chairman, American Council for Capital Formation (Mar. 9)

Asserts that there is a serious capital shortage and that the rate of capital formation, in the form of truly productive investment in new plant and equipment, must be stepped up significantly. Otherwise, believes nation will be unable to create adequate jobs for a growing labor force, sustain a high rate of economic growth, compete effectively in world markets, and ultimately win the battle against inflation. Contends that the Federal tax system impedes capital formation because it is biased in favor of consumption and against saving and productive investment. Asserts that the reason Congress does not enact measures to promote capital formation is because people believe these measures will primarily benefit business and wealthy individuals.

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

Believes there is justification for modest stimulus to the economy. States that non-residential investment in this recovery has been well below the rate of investment during earlier economic recoveries since World War II. Asserts that the ability to attract funds for necessary investment has declined during the last decade. Believes that unless investment increases it will be impossible to have the necessary plant and equipment for workers when the economy approaches capacity operations. Also, feels that without increased private investment unemployment will remain high, more attempts to socialize job creation will be made, and the danger of a return to double digit inflation will be increased.

W. Reid Thompson, President, Potomac Electric Power Company, on behalf of Edison Electric Institute (*Mar. 9*)

Believes there is a need to provide a stimulus to the economy to help it achieve full recovery. Endorses, in principle, the economic program submitted to Congress by the President.

A. V. Jones, Jr., Partner, Jones Co., Ltd., and President, Independent Petroleum Association of America (*Mar. 9*)

Maintains that the necessity of providing full employment and adequate energy resources and in containing inflation will require an increasing capability to have secure energy supplies. Indicates the need to increase the number of domestic oil drillings to reverse our dependence on foreign supplies.

Roland M. Bixler, National Association of Manufacturers (*Mar. 10*)

Fuels that estimates of 2 million layoffs because of the severe cold were probably too high. Believes now that economy will resume its growth.

Reginald Jones, Chairman and Chief Executive Officer, General Electric Company (*Mar. 10*)

States that the economy is recovering well from the temporary effects of the cold winter, but Congress should still be concerned about overall levels of economic activity. Feels that congressional action must stimulate broad-based economic growth and take a more permanent approach to economic problems.

Edgar B. Speer, Chairman of U.S. Steel Corporation and Chairman of American Iron and Steel Institute (*Mar. 10*)

Indicates that the real disappointment in the current economic recovery has been the low level of capital spending.

Frederick C. Jaicks, Chairman and Chief Executive Officer for Inland Steel, on behalf of Ad Hoc Committee for an Effective Tax Credit (*Mar. 10*)

States concern for lower priority assigned to encouraging capital expenditures in the House bill, which is the most effective way to increase production, reduce unemployment and create jobs required through the early 1980's.

Hon. James A. McClure, U.S. Senator, Idaho (*Mar. 11*)

Expresses concern that the Administration's economic stimulus proposals favor consumption over investment. Claims that adequate investment is the key to productivity and sustainable economic growth with stable prices. Believes that the Administration's approach will be inflationary and short-sighted.

Norma Pace, Senior Vice President, American Paper Institute (Mar. 11)

States that the economy is recovering faster and better from the cold weather than anticipated. Feels that the foundation for recovery has never been stronger, with low inventories. Maintains that a primary economic problem is the lack of capital investment and that there will be a supply problem because of high costs of creating new productive capacity. Contends that internal funds will generate only about one-half the capital needs of the paper industry.

Stockholders of America, Inc., Margaret Cox Sullivan, President (written statement)

Maintains that there is a need to encourage more capital investment to keep the economic system going and growing.

Council of State Chambers of Commerce, George S. Koch, Chairman Federal Finance Committee (written statement)

Indicates that the major lagging sector during the 1975–76 economic recovery has been business investment.

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II. COMMENTS ON TAX REDUCTION PROPOSALS

A. Individual Tax Refund and Reduction

1. Income Tax Refund

Administration proposal

The Administration proposes a general $50 per person refund of 1976 income tax liabilities, which generally could not exceed the 1976 tax liability. However, the refund could exceed income tax liability for those using the earned income credit and certain others who would have been eligible for that credit were it not for the income phaseout. This proposal would reduce revenues in fiscal 1977 by $9.6 billion.

In testimony before the Finance Committee, the Administration indicated support of the phase out of the rebate at AGI of $30,000 and over —as in the House bill. The Secretary of the Treasury noted that this would provide about $1 billion less in stimulus as compared to the Administration's proposal.

Hon. Edward M. Kennedy, U.S. Senator, Massachusetts (*Mar. 9*)

Endorses the $50 tax rebate provision in the House bill.

Charles Stewart, President, Machinery and Allied Products Institute (*Mar. 9*)

Believes the rebate is justified and will have a stimulative effect on the economy because most of the money will be spent, and even that which is saved will benefit the economy indirectly. Hopes that if the rebate is increased to offset higher utility bills, other portions of the package will be reduced. Opposes the phase-out of the rebate between $25,000 and $30,000 of income because of the effect inflation has had on people above these income levels, and because spending by upper income people is also stimulative to the economy.

Charls E. Walker, Chairman, American Council for Capital Formation (*Mar. 9*)

Considers the rebate proposal highly questionable either as a stimulus for lasting consumption or as an indirect method of boosting business investment. Argues that the U.S. economy does not need a "one-shot, fast-dissipating pump-primer," but instead needs tax actions of a permanent nature to lower the after-tax cost of real capital, to bolster business confidence, and thereby encourage capital spending.

Jack Carlson, Vice President, Chamber of Commerce of the United States (*Mar. 9*)

Asserts that the proposed rebate will temporarily stimulate the economy but the effect will pass quickly and the timing will create problems. Contends that the "roller-coaster" effect of a tax rebate could be injurious to the economy at this juncture because an inventory cycle might be triggered. States that inventories declined last year and have not been replenished because of bad weather and the natural gas shortage. Believes that the rebate may cause excessive replenishment of inventories because retail sales will temporarily rise. Expresses concern that this will lead to a sharp downturn in business and an employment cut-back as inventories are later cut back as the temporary stimulus is gone.

Because of the temporary decline in both actual and potential output because of the weather and the natural gas shortage, believes that an abrupt stimulus will tend to cause higher prices than would a smaller but continuous stimulus which would result from a permanent individual tax cut.

Roland Bixler, National Association of Manufacturers (Mar. 10)

Criticizes the proposed refund generally as another instance of government management of economic decisions. Also objects to its temporary nature. Dislikes the fact that individuals in high marginal tax brackets would get little or no rebate.

Andrew J. Biemiller, Director, Department of Legislation, AFL–CIO (Mar. 10)

Criticizes emergency tax cuts and rebates which cannot be targeted. However, urges that the phase-out be retained and supports extension of 1977 individual tax cuts to 1978.

Reginald Jones, Chairman and Chief Executive Officer, General Electric Company (Mar. 10)

Feels that one-shot rebates don't really strengthen the economy and will lead to the same problems of stagnation and inflation in 1979 and 1980.

Hon. Pete V. Domenici, U.S. Senator, New Mexico (Mar. 11)

Opposes the $50 rebate proposal as inferior to a permanent income tax reduction as an effective way of encouraging economic recovery. Maintains that the potential stimulative effect of a one-time payment is reduced if the payment is saved and not spent. Notes that a Joint Economic Committee report indicates that one-time tax rebates have little impact on business investment because the effect on consumer spending is only temporary.

Contends that inflationary effects on taxpayers justify a rate reduction now rather than waiting for later tax reform.

Hon. Charles Percy, U.S. Senator, Illinois (Mar. 11)

Opposes the $50 rebate proposal as a wasteful effort that will have very little stimulative effect. Objects also to the refundable feature. Favors, instead, a permanent tax cut.

Hon. James A. McClure, U.S. Senator, Idaho (Mar. 11)

Considers the proposed rebates to be unproductive in resolving the needs of adequate economic growth.

Hon. Jacob K. Javits, U.S. Senator, New York (Mar. 11)

Considers the rebate proposal to be a waste of tax money. Favors, instead, a permanent tax reduction for individuals as a more effective way of stimulating the economy.

Council of State Chambers of Commerce, George S. Koch, Chairman, Federal Finance Committee (written statement)

Believes that the one-time $50 rebate would not build consumer confidence in the economy. Favors, instead, a permanent across-the-board reduction in individual taxes.

National Association of Retired Federal Employees, John F. McClelland, President (written statement)

Recommends extending the rebate proposal to include low-income civil service annuitants who had no tax liability in 1976.

2. Changes In Standard Deduction and Tax Tables

Administration proposal

The Administration originally proposed a flat standard deduction of $2,400 for single persons and $2,800 for married couples. Later, the proposal was modified to be $2,200 for single persons and $3,000 for married couples. (The House bill, H.R. 3477, has $2,400 for single persons and $3,000 for married couples. The Administration does not support the $2,400 level in the House bill.) Currently, the standard deduction for single persons is 16 percent of adjusted gross income, but not less than a minimum standard deduction of $1,700 or more than a maximum standard deduction of $2,400. The standard deduction for married couples is currently 16 percent of adjusted gross income, but less than a minimum of $2,100 or more than a maximum of $2,800. Under the proposal, the standard deduction is to be built into the tax tables. In addition, the proposal would allow itemizers (up to a certain income level) to utilize the "optional" tax tables.

Under the proposed flat standard deduction, taxpayers would itemize if their deductions exceeded the $2,200 floor in the case of single taxpayers and the $3,000 floor in the case of married taxpayers filing point returns. The tax tables for itemizers would incorporate these floors. Itemizers would deduct only to amounts in excess of the floors to determine the income which they would look up on the "optional" tax table to find the amount of their tax.

In addition, the $750 personal exemption would, under the proposal, be built into the tax tables, as well as the general tax credit (which equals either $35 per capita or 2 percent of the initial $9,000 of taxable income, whichever is greater). The new tables would have different columns for different numbers of exemptions.

The Administration proposal also would extend the $35 part of the general tax credit to exemptions for age and blindness, as well as dependency exemptions.

Hon. Edward M. Kennedy, U.S. Senator, Massachusetts (Mar. 9)

Believes that the substitution of a flat standard deduction and the revision of the tax tables represent a major step toward a more easily understood tax system which will be easier to administer. Regarding the so-called "marriage penalty," prefers the House bill solution because it avoids a tax increase on some single persons as compared to the Administration proposal. Urges that further consideration be given to this problem later in tax reform proposals.

Charles Stewart, President, Machinery and Allied Products Institute (Mar. 9)

Argues that permanent tax revision is premature. Feels it should be considered in the overall context of substantive tax reform, and is a departure from the original focus of the Administration package on stimulating the economy.

Roland M. Bixler, National Association of Manufacturers (Mar. 10)

Maintains that the proposed increase in the standard deduction continues the "bottom-weighting" of the previous three tax reductions and would remove 3.7 million more families from the tax rolls. Feels that families at all income levels have suffered from inflation and other sources of economic dislocation. Dislikes exclusion of itemizers from benefits of this provision. States that a "continual emphasis on income redistribution and shrinkage of the tax base through increases in the standard deduction seem inappropriate in legislation designed primarily to help get the economy moving."

Bayard Ewing, Chairman, Coalition of National Voluntary Organizations (Mar. 10)

Expresses concern that the increased standard deduction will decrease the incentive to give for those individuals affected. Suggests allowing charitable contributions be deducted from gross income to encourage giving by low and moderate income individuals who take the standard deduction.

Council of State Chambers of Commerce, George S. Koch, Chairman, Federal Finance Committee (written statement)

Expresses reservations about including the standard deduction changes in an emergency economic stimulus bill. Feels that such a change should be considered in connection with comprehensive tax reform legislation when its merits can be compared with other possible reforms.

Council of Jewish Federations and Welfare Funds (written statement)

Does not oppose tax reduction or simplification, but expresses concern that the proposed increase in the standard deduction will result in decreased incentive for charitable contributions. Suggests making charitable contributions deductible *from* gross income in the computation of adjusted gross income.

John C. Davidson, President, The Tax Council (written statement)

Indicates that the proposed change in the standard deduction would increase the "marriage tax penalty". Objects to removing the percentage limit on the standard deduction as further narrowing the tax base and restricting the flexibility for later consideration of improving the equity of the personal income tax.

Proposes allowing married couples double the single standard deduction amount, and merging the single tax rate into an overall lower rate schedule as part of a general tax revision.

3. Extension of 1977 Individual Tax Cuts: General Tax Credit and Earned Income Credit

Administration position

Supports the one-year extension of the 1977 individual tax cuts (general tax credit and earned income credit) contained in H.R. 3477.

Hon Edward M. Kennedy, U.S. Senator, Massachusetts (Mar. 9)

Endorses the extension through 1978 of the general tax credit for individuals and of the earned income credit. Urges extension of the earned income credit to all families, even if they have no dependents. Indicates that this proposal would cost about $600 million for the first full year.

Andrew J. Biemiller, Director, Department of Legislation, AFL–CIO (Mar. 10)

Supports extension of 1977 individual tax cuts to 1978.

Don Warfield, Chairman, Tax and Fiscal Affairs Committee, The Associated General Contractors of America (Mar. 11)

Favors extension of 1977 individual tax cuts to 1978.

4. Permanent Tax Cuts (Including Reductions in Tax Rates)

Hon. Richard S. Schweiker, U.S. Senator, Pennsylvania (Mar. 9)

Endorses a permanent tax cut for individuals by reducing tax rates (as in S. 730).

Charls E. Walker, Chairman, American Council for Capital Formation (Mar. 9)

Supports a permanent reduction in individual income tax rates, provided it is matched by restraint in the growth of Federal spending.

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

Believes a permanent reduction in tax rates is preferable to a tax rebate because purchasing power would be spread throughout the year and the inflationary impact would be less. Also, contends that a permanent individual tax cut would counter the likelihood of a slowdown later this year or next year.

Roland M. Bixler, National Association of Manufacturers (Mar. 10)

Believes that an across-the-board rate reduction on a permanent basis would be superior to the Administration's individual tax cut proposals, especially because it would have more balanced distributional effects.

Reginald Jones, Chairman and Chief Executive Officer, General Electric Company (Mar. 10)

Supports a permanent $15 billion tax cut for individual to include an increase in the general tax credit to $50 and reduced rates in lower and moderate income brackets.

Hon. Jacob K. Javits, U.S. Senator, New York (Mar. 11)

Urges enactment of a permanent reduction in tax rates for individuals (as in S. 730) in place of the rebate proposal. S. 730 would reduce individual income tax rates for tax brackets of $8,000 of taxable income and below in the case of joint returns. Rate brackets for joint return taxpayers now at 14 percent, 15 percent, 16 percent, 17 percent and 19 percent would be reduced to 8 percent, 10 percent, 12 percent, 15 percent and 18 percent, respectively. At taxable income of $8,000, this would involve a tax reduction of $210, with smaller tax reductions at lower levels. Similar reductions in rates are made for single persons and heads of households. Rate brackets for joint return taxpayers with taxable income between $12,000 and $24,000, which are now 25 percent, 28 percent and 32 percent, would be increased to 26 percent, 30 percent and 33 percent, respectively. This phases down the tax cut for taxpayers with taxable income of $24,000 and above to $50 per joint return. Similar adjustments are made with respect to single persons and heads of households.

Hon. Peter V. Domenici, U.S. Senator, New Mexico (Mar. 11)

Recommends a permanent reduction in individual tax rates for those in tax brackets of $18,000 AGI and below (as embodied in S. 730). Maintains that such a permanent tax reduction is needed to offset inflation-caused tax increases and to stimulate the economy on a sustainable basis as compared to the proposed one-time tax rebate. Contends that a permanent tax reduction will create more jobs than the rebate.

Hon. Charles Percy, U.S. Senator, Illinois (Mar. 11)

Recommends a permanent tax reduction for individuals in place of the rebate proposal. Maintains that a permanent tax cut (as in S. 730) would provide a more effective economic stimulus by improving business expectations of a longer term impact. In addition, states that such a tax cut would offset some inflation-caused tax increases.

Hon. James A. McClure, U.S. Senator, Idaho (Mar. 11)

Supports a permanent tax cut for individuals (as in S. 730) instead of a rebate.

Council of State Chambers of Commerce, George S. Koch, Chairman, Federal Finance Committee (written statement)

Recommends a permanent across-the-board reduction in taxes for individuals in place of the proposed $50 rebate. Contends that reduced withholding would provide a sustained increase in consumer purchasing power, and it would also avoid the need for sudden, heavy Treasury borrowing to finance the rebate which could put upward pressure on interest rates.

5. Other individual tax proposals

Energy incentives

Hon. Charles Percy, U.S. Senator, Illinois (Mar. 11)

Supports tax credits for insulation as energy saving and as an economic stimulus due to the increased purchases of insulation and related items.

Sick pay provision

Andrew J. Biemiller, Director, Department of Legislation, AFL–CIO (Mar. 10)

States that the sick pay exclusion should be reinstated for 1976 and that an exclusion be continued for those earning $15,000 or less with a phased out exclusion for those earning $15,000 to $20,000.

Donald H. Schwab, Director, National Legislative Service, Veterans of Foreign Wars (Mar. 11)

Indicates that the retroactive repeal of the sick pay exclusion is causing hardships for many Federal retirees. Supports Senate bills S. 4 and S. 62, which stipulate that the changes made by the Tax Reform Act of 1976 affecting sick pay shall only apply to taxable years beginning on or after January 1, 1977.

Public Employees Department, AFL–CIO, William H. McClennen, President (written statement)

Urges quick adoption of a one-year delay in effective date of 1976 sick pay change (as in S. 4 and H.R. 318).

National Association of Retired Federal Employees, John F. McClelland, President (written statement)

Requests inclusion of the substance of S. 4, which would postpone from 1976 to 1977 the effective date of the sick pay amendment of the Tax Reform Act of 1976.

J. Joseph Vacca, President, National Association of Letter Carriers, AFL–CIO (written statement)

Urges a one-year extension of the effective date of the sick pay changes made by the Tax Reform Act of 1976 (as in S. 4).

Exclusion of income earned abroad

Don Warfield, Chairman, Tax and Fiscal Affairs Committee, The Associated General Contractors of America (Mar. 11)

Notes that the amendments to Section 911 in the Tax Reform Act have caused problems for construction companies abroad. Supports retention of the $20,000 exclusion for construction workers. Also recommends that Congress recognize the allowance for schooling for dependent children, vacation travel and cost of living payments do not represent income to the American worker abroad.

Capital gains

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

Recommends that the rate of taxation for capital gains be reduced proportionate to the length of time an asset is held, with the reduction being gradual and continuous.

Don Warfield, Chairman, Tax and Fiscal Affairs Committee, The Associated General Contractors of America (Mar. 11)

Notes the importance of investment in economic growth and the effect of inflation on capital gains. Proposes reduced tax rates on capital gains.

William F. Ballhaus, President, Beckman Instruments, Inc. (Mar. 11)

Argues the need for a more favorable personal investment climate, noting that recent changes in the tax law have increased taxes on capital gains and restricted the deduction of investment interest. Proposes rollover treatment of capital gains with gains taxed at inheritance tax rates, 100-percent deduction of capital losses and investment interest, as well as the removal of the minimum tax on capital gains.

Manufacturing Chemists Association, William J. Driver, President (written statement)

Suggests reconsideration of taxation of capital gains, including possibly allowing reinvestment rollovers to be excluded from tax or providing a reduced tax rate as the holding period increases.

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B. Business Tax Reductions

Administration proposal for business tax reduction

The Administration is proposing a program of alternative business tax reductions. Each firm or self-employed person would be able to choose between an additional 2 percentage points of investment tax credit an increase in the present 10 percent credit to 12 percent, plus the additional investment credit for (ESOP's) or a refundable income tax credit based on a fraction of Social Security payroll taxes. (A refundable tax credit is one that may exceed tax liability.) For each employer, the payroll credit would be equal to 4 percent of the employer's share of payroll taxes (currently 5.85 percent of taxable payrolls). For the self-employed, the payroll credit would be equal to 2 percent of the self-employed payroll tax (currently 7.9 percent). The credit for payroll taxes would be available to nonprofit institutions and State and local governments.

The effective date for both the additional investment tax credit and the payroll tax credit would be January 1, 1977. The additional investment tax credit alternative would be available through 1980, but the credit for Social Security taxes would be permanent. (The alternative selected by each taxpayer would be binding for each year through 1980.

The reduction in business tax liability would be at an annual rate of $2.6 billion. The reduction in budget receipts would be $0.9 billion in fiscal year 1977 and $2.7 billion in fiscal year 1978.

Position on H.R. 3477.—The Administration opposes the jobs tax credit in H.R. 3477. Estimates that in 1977, 30 percent of the labor market would be excluded by the bill's threshold, 36 percent would be excluded by the $40,000 "cap", for a total of 66 percent. Believes that the jobs credit proposal would encourage the substitution of part-time for full-time workers, would distort overtime employment. Indicates that the proposal could be a tax shelter for higher bracket taxpayers. Feels that the additional 10-percent credit for handicapped employees would cause a number of administrative problems.

1. Employment (or Jobs) Credit

Hon. Edward M. Kennedy, U.S. Senator, Massachusetts (Mar. 9)

Shares the Administration's reservations concerning the complexity and effectiveness of the jobs tax credit in the House bill. In lieu of the jobs tax credit provisions as well as the investment-social security credit option, proposes making the existing 10-percent investment credit refundable. Indicates that the jobs tax credit (as well as the investment credit) provides no help to businesses with no tax liability nor to nonprofit institutions. Maintains that the jobs tax credit will be complicated to administer and difficult to eliminate abuses.

Hon. Richard S. Schweiker, U.S. Senator, Pennsylvania (Mar. 9)

Recommends a new jobs tax credit as embodied in his bill, S. 680.

S. 680 provides employers with a tax credit equal to 20 percent of wages paid to youths 21 years of age or under or to persons unemployed for 15 weeks or more who represent additional employees in excess of the average number of individuals employed by the taxpayer during 1976 for the 1977 credit and the excess over 1977 for the 1978 credit. The maximum credit allowable per employee would be $2,000. If the allowable tax credit exceeds the taxpayer's liability, the employer would receive a refund equal to the excess of the credit. The credit would be available for taxable years 1977 and 1978.

Indicates that the Congressional Research Service estimates that the gross cost of such a credit would be about $1.67 billion, assuming one million youths and long-term unemployed persons were hired and retained for one year at an average wage of $4.00 per hour. States that if the increased income and payroll tax receipts are taken into account, the revenue cost would be only about $160 million per year.

Believes that this approach should be given serious consideration in enacting an employment tax credit, as it is targeted at those who have the greatest unemployment.

Charles Stewart, President, Machinery and Allied Products Institute (Mar. 9)

Contends that the jobs tax credit in the Ways and Means Committee bill would be very difficult to administer, would be of questionable value in creating jobs, and would create inequities or windfalls in certain situations.

Milton D. Stewart, President, National Small Business Association (Mar. 9)

Supports the jobs tax credit in the Ways and Means Committee bill, but would prefer a limit per employee of $2,500 rather than $1,680. Claims such a credit would create nearly 600,000 jobs at a cost of less than $1.5 billion. Argues that criticisms of the jobs tax credit as being unfair or inequitable in its impact among businesses can be levied with equal validity against the investment tax credit, which provides a relatively large benefit to large corporations. Maintains that "business confidence" in the whole business community, not just the major corporations, is required, and the jobs tax credit will begin to provide that confidence, especially in the small business sector.

George H. Lawrence, President, American Gas Association (Mar. 9)

Although the increase in the investment tax credit would generally be more beneficial to the natural gas industry, points out that there are borderline situations where there may be yearly variations which determine whether the additional 2-percent investment credit, the 4-percent credit on social security taxes, or the jobs tax credit is more beneficial. If one of the credits is provided as an option, believes that an annual election of the more beneficial credit in a particular year should be permitted instead of a binding election effective for a period of years.

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

States that the credit in the House bill would assist significantly the hiring of up to a maximum of 24 new employees, and would encourage jobs only in small firms and those growing rapidly. Indicate that synthetic materials would benefit agricultural materials might not, faster growing export industries would benefit more and slower growth domestic industries would benefit less; service industries would benefit while primary industries would benefit less; the construction industry would benefit twice—from increased public works and the job credit—while other industries would not; and faster growing sun-belt-located companies would benefit more than snow-belt companies.

W. Reid Thompson, President, Potomac Electric Power Company (Mar. 9)

Does not oppose the new jobs credit but it should be added to, not substituted for, the business stimuli, particularly the investment credit, that are contained in the President's proposal.

Andrew J. Biemiller, Director, Department of Legislation, AFL–CIO (Mar. 10)

Criticizes the jobs tax credit proposal in the House bill. Notes that those firms with stable or declining sales won't be helped while those expanding will get a windfall. Suggests that the proposal would encourage firms to hire low wage/part-time workers and create inequities among different types of businesses. Also, states that under some circumstances an employer could make a profit off the credit.

Roland M. Bixler, National Association of Manufacturers (Mar. 10)

Criticizes this proposal because, "unlike capital expenditures, which are deductible over a number of years and subject to the ravages of inflation, employment costs are recovered completely during the taxable year."

Questions assertion that employment tax credits are needed to reduce the impact of the minimum wage, of increasing social security costs, and of other factors tending to maintain structural unemployment. Believes that these factors should be addressed directly.

Feels the jobs tax credit might not be effective because investment must be stimulated before employment can be increased. States that the incremental jobs tax credit would do nothing for "our industrial base," although says that such a credit would be of assistance to small expanding firms.

Contends that after two years, pressures will build to make the credit permanent. If not made permanent, wonders what will happen to employees hired because of the credit. Indicates that Assistant Secretary Woodworth's testimony on this matter before the Senate Small Business Committee stated that two-thirds of the labor force would be excluded from the jobs credit coverage because of the $40,000 cap and the 3-percent natural growth threshold.

Stresses the practical problems of administration and enforcement that would attend an incremental job credit—such as potential for abuse of the credit, stemming from the possibility of substituting part-time for full-time workers, and the penalty inflicted on firms who reduce overtime employment and expand employment at regular hours.

Edward Jordan, Consolidated Rail Corporation (Mar. 10)

Criticizes the Ways and Means jobs credit because it is incremental and not refundable. Points out that under Regional Rail Reorganization Act of 1973, Conrail was created under conditions which will cause it to be unprofitable during the next few years and to reduce its overall level of employment despite training new people for various jobs. Both characteristics would deny Conrail the benefits of the Ways and Means proposal.

Claims that even if proposal were across-the-board and refundable, the $40,000 cap would limit the usefulness of the credit to Conrail, since average training costs per new employee at Conrail run approximately $30,000 per year.

Reginald Jones, Chairman and Chief Executive Officer, General Electric Co. (Mar. 10)

Feels that the jobs tax credit should be eliminated. States that it is arbitrary, discriminatory and will not achieve its goals. Notes that it will not affect 66 percent of the labor market.

John J. Motley, Legislative Affairs Representative, National Federation of Independent Business (Mar. 10)

Supports employment tax credits. Proposes a 25-percent credit for increases in FICA quarterly taxable wages (adjusted for inflation).

Edgar B. Speer, Chairman of U.S. Steel Corporation and Chairman of American Iron and Steel Institute (Mar. 10)

Criticizes the job tax credit. Notes that it will not increase business confidence and the benefit would be of a selective nature.

Hon. Pete V. Domenici, U.S. Senator, New Mexico (Mar. 11)

Urges inclusion of a substantial employment tax credit in the tax reduction bill. Considers the Administration payroll credit proposal too insignificant in impact, and the Ways and Means provision to be too low with its $40,000 cap to be of much use by larger firms. Feels that the employment base factor of 103 percent is too high and that the tax credit percentage may be too high also.

Favors an alternative employment tax credit (contained in S. 731), which would allow a credit of $1.00 per hour during the first six months of employment and $.50 per hour during the second six months for all new employees having been unemployed for 26 weeks or more. Estimates that this approach would reduce unemployment by 440–550,000 at a cost of about $0.4 billion in fiscal 1977 and $1.9 billion in fiscal 1978.

Hon. Jacob K. Javits, U.S. Senator, New York (Mar. 11)

Supports employment incentives targeted toward the concentrations of unemployed, especially the youth who represent one-half of the unemployed.

Norma Pace, Senior Vice President, American Paper Institute (Mar. 11)

Indicates that if an alternative jobs credit proposal is desired, it should be more carefully planned and specified than the House bill provision.

Don Warfield, Chairman, Tax and Fiscal Affairs Committee, The Associated General Contractors of America (Mar. 11)

Supports the job tax credit, but indicates that it should be considered as a supplement to rather than a substitute for the investment tax credit and liberalized depreciation.

National Machine Tool Builders' Association (written statement)

Maintains that the jobs tax credit in H.R. 3477 is administratively unworkable and will be ineffective in significantly increasing employment.

American Textile Manufacturers Institute, W. Ray Shockley, Executive Vice President (written statement)

Criticizes the jobs tax in H.R. 3477 as not providing any stimulus to medium and large businesses nor to businesses not increasing their employment by more than 3% over the previous year. Favors giving business the option of choosing the jobs credit or the Administration's payroll credit or increased investment credit.

Manufacturing Chemists Association, William J. Driver, President (written statement)

States that the jobs credit in H.R. 3477, with its $40,000 maximum, would have minimal impact on the chemical industry. Prefers the President's alternative credit proposal, as providing more benefit to capital.

Kevin O'Sullivan, Executive Director, American Society for Training and Development, Inc. (written statement)

Endorses the jobs tax credit approach of H.R. 3477. Suggests as an addition to the bill an experimental tax credit for employers to train jobless youth. Maintains that any "cost" from such a credit would, in the long run, be recouped by their contribution as employees.

Wallace D. Barlow, Executive Director, Share the Work Coalition (written statement)

Opposes the jobs tax credit proposal, as an invitation to fraud and "job simulation" rather than job creation.

2. *Payroll Tax Credit*

Charles Stewart, President Machinery and Allied Products Institute (Mar. 9)

Is neutral about the credit as a short-run stimulus. For the long run, does not believe it is a viable part of our Federal tax system. Has some concern that the proposal amounts to initiating an indirect partial funding of Social Security from general revenues.

Charls E. Walker, Chairman, American Council for Capital Formation (Mar. 9)

Supports the restoration of the original Administration proposal but notes that some members of his organization expressed concern over any tie-in between the Social Security base and the Federal income tax system.

George H. Lawrence, President, American Gas Association (*Mar. 9*)

Although the increase in the investment tax credit would generally be more beneficial to the natural gas industry, points out that there are borderline situations where there may be yearly variations which determine whether the additional 2-percent investment credit, the 4-percent credit on social security taxes, or the jobs tax credit is more beneficial. If one of the credits is provided as an option, believes that an annual election of the more beneficial credit in a particular year should be permitted instead of a binding election effective for a period of years.

Jack Carlson, Vice President, Chamber of Commerce of the United States (*Mar. 9*)

Notes that the across-the-board wage subsidy in the form of a 4-percent tax credit on social security contributions can provide additional cash flow to all industries. Indicates that retail and other labor intensive industries would benefit most.

Roland M. Bixler, National Association of Manufacturers (*Mar. 10*)

States that Administration's payroll tax credit does indicate recognition of the increasing burden of social security taxes on marginal employment. Applauds its refundability because it would permit virtually all businesses with any payroll costs to benefit from it. However, doubts it will have much impact on employment because of its limited size. If expanded in the future, claims that it would further fractionalize incentive features of the tax system and would add complexity to the tax law. Fears it might lead to general revenue financing of social security.

John J. Motley, Legislative Affairs Representative, National Federation of Independent Business (*Mar. 10*)

Notes that the proposed payroll tax credit will only provide a typical small firm with between \$150 and \$225 of credit, while it could provide a windfall for a firm with a larger number of employees.

Edward G. Jordan, Consolidated Rail Corporation (*Mar. 10*)

Maintains that, from Conrail's point of view, the Administration's payroll tax credit is superior to the Ways and Means Committee's incremental job tax credit because the Administration's proposal is not incremental and because it is refundable. Points out that under Regional Rail Reorganization Act of 1973, Conrail was created under conditions which will cause Conrail to be unprofitable during the next few years and to reduce its level of employment. Both characteristics deny Conrail the benefits of the Ways and Means proposal but not the benefits of the Administration's payroll credit.

3. Investment Tax Credit

Hon. Edward M. Kennedy, U.S. Senator, Massachusetts (*Mar. 9*)

Recommends, in lieu of the jobs tax credit and the investment social security tax credit option, making the existing 10-percent investment credit refundable for two years. Claims that only through refundability will any tax stimulus be given to businesses with no tax liability or to nonprofit organizations. Maintains that a refundable investment credit is a more effective way of providing funds to make needed capital investments, and to achieve greater productivity and employment.

Asserts that a refundable investment credit would not require the complicated additions to the Code and regulations as would a new jobs credit.

Charles Stewart, President, Machinery and Allied Products Institute (Mar. 9)

Advocates a permanent 12-percent investment tax credit, with a 15-percent credit available for investment in anti-pollution equipment.

Charls E. Walker, Chairman, American Council for Capital Formation (Mar. 9)

Supports the 2-point increase in the investment tax credit proposed by the Administration. Asserts that a good case can be made that the cost of this increase will be "negative," that is, it will ultimately gain, not lose, revenue. Argues that a gain in revenue will result because the after-tax return from investing in new productive equipment will rise and businessmen will step up capital spending. This spending will lead to increased employment, expansion of business activity and a rise in profits which will increase business tax payments. Payrolls will also rise which will result in higher taxable income of workers with still another boost to Federal revenues.

George H. Lawrence, President, American Gas Association (Mar. 9)

Supports President Carter's proposal to increase the investment tax credit to 12 percent. States that the natural gas industry is a capital intensive industry and must engage in a massive capital program during the next ten years. Cites the need for financial assistance and incentives for the development of substitute natural gas sources.

Recommends the following: (1) that the 12-percent investment tax credit be available as an option to the House-passed jobs tax credit or to the President's proposed 4-percent payroll tax credit if adopted; (2) that the investment tax credit be made permanent and not temporary; (3) that pipeline companies and other companies engaged in development of supplemental gas sources have the same use of the increased investment credit limitation as that provided electric and gas distribution companies; (4) that it be made apparent to regulatory authorities that Congress is making the investment tax credit available only if the utility is able to retain it for further expansion, and that its benefits are not to be "flowed through" to the customers; and (5) that if an option is granted to take the investment tax credit or the payroll credit or jobs tax credit, that the option be available annually.

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

Recommends adoption of President's proposed increase in the investment tax credit. Contends that an increase in the investment tax credit would stimulate additional orders for material, and thereby prompt additional employment. Recommends, for the long range, that a permanent 12-percent investment tax credit be provided, on an expenditure basis, uniformly applied to all business, and without limitations based on tax liability, and without any corresponding reductions in depreciation alowances.

W. Reid Thompson, President, Potomac Electric Power Company (Mar. 9)

Asserts that the investment credit is a proven vehicle in providing a stimulus to the economy by encouraging investment in capital facilities. Believes the additional 2-percent credit will provide a stimulus which will assist the electric power industry in enlarging its contribution to solving national energy problems. Estimates that in the next five years (1977 through 1981) a total of $122 billion will be required for construction to meet anticipated electric energy demands. Indicates that the additional 2-percent investment credit would help in alleviating the burden of raising this amount.

Recommends that the entire investment credit provisions be made permanent, because the construction of electric power facilities requires a long lead time, from five to ten years. Cites the importance of the new investment credit being fully available for utilization by taxpayers. Suggests that any exisitng 10-percent credit and ESOP credit be applied first against the percentage-of-tax limitation applicable to utilization of credits; the additional 2-percent investment credit should be allowable beyond such limitation but not to exceed total tax liability.

Also, proposes that the investment credit be currently available at the time of investment rather than delayed until the date property is placed in service. Finally, in order to achieve the job-stimulant objectives of the program for regulated businesses, recommends that the additional 2-percent investment credit be subject to rate-making and accounting options, similar to those now provided in the Internal Revenue Code.

Roland M. Bixler, National Association of Manufacturers (Mar. 10)

Indicates that Administration proposal to increase investment tax credit by 2 percentage points would be a "practical alternative" to corporate rate reduction. However, believes that the increase should be made permanent, because fluctuations in the credit have disrupted rational economic planning.

Suggests an increase in the 50-percent income tax limitation in proportion to the increase in the investment credit above 7 percent, in that many firms otherwise would have insufficient income tax liability to offset with the credit. Estimates that the revenue cost of increasing the investment tax credit by 2 points is about $1.8 billion, depending on the income tax limitation and the option of using other approaches.

Edward Jordan, Consolidated Rail Corporation (Mar. 10)

States that "increasing the investment tax credit has proven to be an effective method of expanding capital and employment." However, because of its lack of refundability it does not help firms which are marginally profitable or in a loss position. It also does not help service-oriented firms.

Andrew J. Biemiller, Director, Dept. of Legislation, AFL-CIO (Mar. 10)

Argues that there is no justification for business tax cuts—such as an increased investment credit—which benefit businesses for what they would do anyway.

Edgar B. Speer, Chairman of U.S. Steel Corporation and Chairman of American Iron and Steel Institute (Mar. 10)

Supports reinstatement of the 12-percent investment tax credit as at least an elective alternative.

Frederick C. Jaicks, Chairman and Chief Executive Officer for Inland Steel, on behalf of Ad Hoc Committee for an Effective Tax Credit (Mar. 10)

Proposes that a 12-percent investment tax credit be made permanent to stimulate productivity and long-term growth, and that the credit be applied to productive buildings. Also, recommends some revisions, including: (1) increase in the amount of taxable income against which a full credit can be taken to $125,000 (from the present $25,000); (2) increase in the allowable percentage of taxable income above that base to 75 percent (100 percent for utilities, railroads and airlines); and (3) reduction in the minimum life for the full credit from seven years to three years. Suggests a 20-percent credit for pollution control equipment.

Reginald Jones, Chairman and Chief Executive Officer, General Electric Company (Mar. 10)

Supports a permanent increase in the investment tax credit to 13 percent as part of a permanent tax reduction program for individuals and businesses.

John J. Motley, Legislative Affairs Representative, National Federation of Independent Business (Mar. 10)

Indicates that the additional 2-percent investment tax credit will be of little or no value to small firms.

Don Warfield, Chairman, Tax and Fiscal Affairs Committee, The Associated General Contractors of America (Mar. 11)

Supports a permanent increase in the investment tax credit to 12 percent.

Norma Pace, Senior Vice President, American Paper Institute (Mar. 11)

Supports the Administration's proposed alternative of the additional 2-percent investment credit. Believes that a larger and permanent credit should be considered, with a 20-percent credit for capital investment in pollution control equipment.

National Machine Tool Builders' Association (written statement)

Recommends including the 2 percent increase in the investment credit on a permanent basis. Indicates that various data show that the U.S. is behind in capital investment and productivity. Claims that a temporary "on and off" investment credit does not induce or secure the needed investment.

American Textile Manufacturers Institute, W. Ray Shockley, Executive Vice President (written statement)

Recommends allowing businesses to choose either one of three options: the jobs credit, the payroll credit, or the increased investment credit. Feels that such a choice would be beneficial in promoting expansion and employment in all businesses.

Manufacturing Chemists Association, William J. Driver, President (written statement)

Recommends increasing the investment credit to 12 percent on a permanent basis. Contends that increasing the credit would be counter-inflationary by creating more productive efficiency.

Council of State Chambers of Commerce, George S. Koch, Chairman, Federal Finance Committee (written statement)

Recommends a permanent 12-percent investment credit. Alternatively, suggests allowing the additional 2-percent investment credit as an option to the jobs credit of H.R. 3477, in order to encourage new investment.

Frederic W. Hickman, Counsel, Trans Union Corporation (written statement)

Recommends that the investment credit be increased to 12 percent, but be made either transferable or refundable. Indicates that this would enable firms who are most affected by the net income limitation to take greater advantage of the credit.

John C. Davidson, President, The Tax Council (written statement)

Favors a permanent 12-percent investment credit, as well as an increase in the 50-percent of tax limitation. Feels that a permanent credit would remove uncertainties of tax policy toward business investment.

Wallace D. Barlow, Executive Director, Share the Work Coalition (written statement)

Agrees with House action to exclude the President's proposed increase in the investment credit. Claims that it discourages hiring new workers.

4. Corporate Tax Rates

Administration position

The Administration supports the one-year extension of the 1977 corporate rate reduction and surtax exemption level.

Hon. Edward M. Kennedy, U.S. Senator, Massachusetts (Mar. 9)

Approves the extension through 1978 of the current corporate tax reductions for small business to help small businesses continue their recovery from the recession.

Charls E. Walker, Chairman, American Council for Capital Formation (Mar. 9)

Suggests that a 2-point cut in the corporate tax rate be added as a third alternative to the Administration proposals for a 2-point increase in the investment credit or a 4-percent payroll tax credit. Asserts that such a cut would ultimately cost nothing and would bolster business confidence.

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

Recommends that the corporate surtax exemption be increased to $100,000, with a 20-percent normal tax on the full amount subject to the surtax exemption. For long-range capital formation, believes that corporate tax rates should be reduced to permit and encourage reinvestment of earnings in sufficient amounts to promote economic progress and provide jobs. Asserts that the tax system has resulted in double taxation of equity capital by taxing corporate earnings and corporate dividends received by individuals. Recommends the removal of this double taxation.

Roland M. Bixler, National Association of Manufacturers (Mar. 10)

Proposes an across-the-board reduction in the normal corporate tax to 20 percent (leaving a 46 percent top rate) and an extension of the corporate surtax exemption level to $60,000 in 1977 and to $100,000 in four additional steps by 1981. Believes that corporate rate reduction would best assure maximum efficiency in resource use and would be a neutral business tax reduction. Criticizes the limited and temporary nature of previous corporate rate reductions.

Estimates the revenue cost of this rate reduction proposal at $2.9 billion for 1977 and slightly more in later years. Notes that business tax reductions in the Administration and House packages would cost roughly the same amount. Cites analysis by Chase Econometric Associates indicating that a corporate rate reduction would have short-term beneficial impacts and would be more cost effective than other proposed fiscal stimulu in "maximizing real growth and minimizing inflationary potential".

Believes that his proposal would be less difficult to implement than others. Also maintains that, although it would be only a small step in correcting the bias of the tax system against productive investment, it would not interfere with more basic reforms to be instituted at a later time.

Hon. Pete V. Domenici, U.S. Senator, New Mexico (Mar. 11)

Recommends a permanent reduction of the corporate tax rate to 18 percent on the first $100,000 of corporate net income (as in S. 732). Indicates that although all corporations would receive some tax relief, most of the benefit would go to smaller corporations.

Hon. Jacob K. Javits, U.S. Senator, New York (Mar. 11)

Supports reduction of corporate tax for small business, on the first $100,000 of income.

Norma Pace, Senior Vice President, American Paper Institute (Mar. 11)

Recommends a reduction of 2 percent in the corporate tax rate.

Corporate tax rate, Manufacturing Chemists Association, William J. Driver, President (written statement)

Recommends reducing the corporate tax rate to encourage investments in equity capital

Wallace D. Barlow, Executive Director, Share the Work Coalition (written statement)

Proposes increasing the corporate tax rate for low labor content industries and reducing it for high labor content industries as a way of increasing employment.

5. Other Business Tax Proposals

Energy-related proposals

A. V. Jones, Jr., Partner, Jones Co., Ltd., and President, Independent Petroleum Association of America (Mar. 9).

Contends that previous and present tax policies have penalized the petroleum industry and have discouraged independent drilling for new sources of oil and gas. Recommends removal of the 1976 provision to include intangible drilling expenditures in the minimum tax.

Proposes an "energy development investment credit" in an effort to stimulate the search for and development of all domestic energy resources.

Other capital incentive proposals

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

Believes that for the long range the concept of prompt capital recovery allowance designed to encourage replacement and expansion should take the place of outmoded concepts of useful lives which have been used unsuccessfully as a measure of depreciation and obsolescence. Indicates that, as a first step, the Asset Depreciation Range System should provide for a 40-percent variable capital cost recovery period applied to the 1962 Treasury guidelines. Suggests that the goal should be a complete capital cost recovery system that groups assets in a few general classes to which a capital cost recovery percentage is applied to assets as a class.

Frederick C. Jaicks, Chairman and Chief Executive Officer for Inland Steel, on behalf of Ad Hoc Committee for an Effective Tax Credit (Mar. 10)

Proposes a new capital cost recovery system which would allow a five-year writeoff of machinery and equipment and of all pollution control facilities, with use of double-declining balance or sum-of-the-years digits depreciation methods. Productive buildings would be allowed similar depreciation over a ten-year life.

Don Warfield, Chairman, Tax and Fiscal Affairs Committee, The Associated General Contractors of America (Mar. 11)

Supports the allowance of accelerated depreciation and proposes an increase in the Asset Depreciation Range to 40 percent. Favors elimination of double taxation on dividends.

Edgar B. Speer, Chairman of U.S. Steel Corporation and Chairman of American Iron and Steel Institute (Mar. 10)

Supports elimination of the double tax on dividends.

Hon. James A. McClure, U.S. Senator, Idaho (Mar. 11)

Favors tax reduction changes to improve business investment and business confidence rather than tax cuts that are consumption oriented. Asserts that previous investment booms (periods during which real business investment rose by at least 10 percent for two or more years) were preceded by tax changes designed to make investment more appealing: indicates that the 1955–56 growth was preceded by the 1954 tax revisions and removal of the excess profits tax; that the 1963–65 growth was preceded by the initiation of the investment credit and revised depreciation guidelines in 1962; and that the 1972–73 period was preceded by the reinstatement of the investment credit and the ADR change in 1971.

Hon. Jacob K. Javits, U.S. Senator, New York (Mar. 11)

Supports tax incentives to encourage broadened stock ownership (such as BSOPs and ESOPs).

Hon. Patrick Moynihan, U.S. Senator, New York (written statement)

Requests that consideration be given in the economic stimulus package to the proposal of the Coalition of Northeastern Governors (CONEG). The proposal would allow accelerated depreciation for qualified manufacturing property in high unemployment States at twice the rate allowable under section 167 of the Code.

Stockholders of America, Inc., Margaret Cox Sullivan, President (written statement)

Advocates a tax credit for individual stockholders for taxes already paid on income earned by the corporations in order to eliminate double taxation of corporate dividends paid. Contends that double taxation penalizes equity capital. Maintains that removal of double taxation would encourage more investment in corporate stocks.

Manufacturing Chemists Association, William J. Driver, President (written statement)

Recommends consideration of liberalization of the ADR cost recovery system and accelerated write-off of pollution control facilities. Suggests reducing the double taxation of corporate earnings by either taxing distributed earnings less than retained earnings or by allowing shareholders a credit or deduction for taxes paid by the corporation.

Kevin O'Sullivan, Executive Director, American Society for Training and Development, Inc. (written statement)

Suggests renewal of the previous tax provision for 5-year amortization for capital expenditures in acquiring, building or rehabilitating on-the-job training and child care facilities.

III. COMMENTS ON EXPENDITURE PROPOSALS

Special Payments to Certain Beneficiaries

Administration proposal

Special payments.—The Administration proposes a one-time $50 per person payment to Social Security, Supplemental Security Income (SSI), and Railroad Retirement beneficiaries. (This is identical to the provision in the Tax Reduction Act of 1975.) The increase in outlays would be $1.8 billion for fiscal 1977.

With regard to the additional categories of program recipients of the $50 payment under H.R. 3477, the Administration questions the inclusion of Veteran's and black lung beneficiaries due to the administrative problems of cross checking them with those also eligible for social security special payments and cross checking on tax refunds.

Hon. Edward M. Kennedy, U.S. Senator, Massachusetts (Mar. 9)

Endorses the $50 per person payment to the various program beneficiaries in the House bill.

Increased Public Service Employment

Administration proposal

The Administration proposes increased outlays for public service employment programs of $700 million for fiscal 1977 and $3.4 billion for fiscal 1978.

Charles Stewart, President, Machinery and Allied Products Institute (Mar. 9)

Believes long-term job opportunities are better created in the private sector. Is concerned about the tilt in the stimulus package toward beefing up the public sector at the expense of the private sector.

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

If the government acts as the employer of last resort for the structurally unemployed, asserts that it should do it in the least costly way and where the jobs exist. States that four-fifths of all new jobs are created in the private sector and jobs can be created easily with 25 percent subsidy of costs. Contends that the thrust of the major stimulus proposals is to create jobs where less than one-fifth of the new jobs will be created and with 100 percent subsidies. Suggests that a tax wage subsidy of modest size would be a preferable route to take on a pilot test basis.

Reginald Jones, Chairman and Chief Executive Officer, General Electric Company (Mar. 10)

In addition to a permanent $15 billion tax cut for individuals and a $3 billion cut for businesses, proposes a $5 billion increase in job programs through CETA. These amounts would include $1.6 billion for an Urban Youth Corps, $0.3 billion for expanded job corps, $2.1 billion for temporary public service jobs, and $1 billion in hire and train incentives.

Increased Public Works

Administration proposal

The Administration proposes increased outlays for public works programs of $200 million for fiscal 1977 and $2 billion for fiscal 1978.

Jack Carlson, Vice President, Chamber of Commerce of the United States (Mar. 9)

Believes public works are particularly inappropriate for stimulating the economy, because they require a long time before jobs are created. Asserts that the potential for expanding construction is greater through "private works" (structures) than public works, and that no stimulus is provided for "private works" in the President's proposal. Considers this lack of stimulus to be a serious oversight.

Increased countercyclical revenue sharing aid

Administration proposal

The Administration proposes to add $0.5 billion to countercyclical revenue sharing in fiscal year 1977 and $0.6 billion in fiscal year 1978. Countercyclical payments are currently triggered in the aggregate when the national unemployment rate exceeds 6 percent; localities receive payments if their unemployment rate is then in excess of 4.5 percent. This program, which is designed to compensate State and local governments for shortfalls in revenues due to slow or declining economic growth, provides quarterly payments of $125 million plus $62.5 million per half-percentage point of unemployment in excess of 6.0 percent. The program has a current authorization of $1.250 billion and is scheduled to expire at the end of fiscal year 1977.

The Administration recommends extension of the program through 1980, an increase in the aggregate authorization of $2.250 billion, and quarterly payments on the basis of tenths of percentage points of excess unemployment rather than the current half percentage points. The increment would be $30 million per tenth of a percentage point rather than the current $62.5 million per half percentage point.

Other Proposals

Administration proposal

The Administration proposes increased outlays for expanded youth and other job training programs of $300 million for fiscal 1977 and $1.6 billion for fiscal 1978.

Andrew J. Biemiller, Director, Department of Legislation, AFL–CIO, (Mar. 10)

As fiscal stimulus, supports a $30 billion spending program including public works, housing, public service employment, youth training and countercyclical aid to State and local governments.

APPENDIX: SUMMARY OF SENATE BILLS RELATING TO INDIVIDUAL AND BUSINESS TAX PROPOSALS

S. 149 (Senator Bentsen)—"Unemployment Tax Credit Economic Stabilization Act of 1977"

Where the national unemployment rate exceeds 5 percent for three consecutive months, there would be provided a tax credit equal to 5 percent of the annual average gross earnings for production and nonsupervisory workers, as determined by the Bureau of Labor Statistics for each qualifying worker. Employees qualifying for the credit would be those placed on the payroll above the employer's employment base. At 5-percent unemployment, the employment base is the average number of full-time employees for the 12 months preceding the triggering of the credit. As unemployment increases, the employment base is reduced by 5 percent for each 1 percent increase in unemployment. To insure that the credit is available to all employers, credits in excess of tax liability would be refunded to employers.

S. 504 (Senator McClure)—"Jobs Creation Act of 1977" Reductions

Provides a permanent reduction in individual income tax rates; allows an exclusion from gross income for qualified additional savings and investments of up to $1,000 per year ($2,000 for a married couple filing a joint return); allows a deduction for dividends paid by domestic corporations; increases the corporate surtax exemption to $100,000 and sets the corporate normal tax rate on the first $100,000 of taxable income at 20 percent; and revises the allowance for depreciation by permitting capital recovery allowances to be computed with reference to price adjustment increases for each taxable year.

S. 616 (Senator Dole)—"Employment Credit Act"

Provides a tax credit equal to $1 per hour worked by additional full-time employees. An additional 50 cents per hour credit would be provided for hiring persons who had been unemployed for more than 26 weeks. Additional hours worked and people employed would be those in excess of 1976 levels. A special base for high unemployment regions would be set at 90 percent of 1976 levels. The total tax credit would not exceed 20 percent of the total hours of employment for the calendar year and cannot exceed tax liability for the taxable year. This tax credit would be phased out before January 1, 1980.

S. 680 (Senator Schweiker)—"New Jobs Tax Credit Act"

Provides employers with a tax credit equal to 20 percent of wages paid to youths 21 years of age or under or to persons unemployed for 15 weeks or more who represent additional employees in excess of the average number of individuals employed by the taxpayer during 1976. The maximum credit allowable per employee would be $2,000. If the allowable tax credit exceeds the taxpayer's liability, he would receive a refund equal to the excess of the credit.

S. 730 (Senators Baker, Curtis, Danforth, Javits, Domenici, Bellmon, Chafee, Goldwater, Griffin, Hatch, Hayakawa, Heinz, Lugar, McClure, Percy, Schmitt, Schweiker, Stafford, Tower, and Young)—Permanent Individual Income Tax Rate Reduction

Reduces individual income tax rates for tax brackets of $8,000 of taxable income and below in the case of joint returns. Rate brackets for joint return taxpayers now at 14 percent, 15 percent, 16 percent, 17 percent and 19 percent would be reduced to 8 percent, 10 percent, 12 percent, 15 percent and 18 percent, respectively. (At taxable income of $8,000, this would involve a tax reduction of $210, with smaller tax reductions at lower levels) Similar reductions in rates are made for single persons and heads of households. Rate brackets for taxpayers with taxable income between $12,000 and $24,000, which are now 25 percent, 28 percent and 32 percent, are increased to 26 percent, 30 percent and 33 percent, respectively. (This phases down the tax cut for taxpayers with taxable income of $24,000 and above to $50 per joint return.) Similar adjustments are made with respect to single persons and heads of households.

S. 731 (Senators Baker, Dole, Curtis, Danforth, Javits, Domenici, Percy, Bellmon, Chafee, Griffin, Hayakawa, Heinz, Hatch, Lugar, McClure, Schmitt, Schweiker, and Young)—"Jobs Tax Credit"

Provides tax credit equal to $1 per hour worked by additional employees for the first 26 weeks of employment and 50 cents per hour worked for the second 26 weeks of employment. This credit would apply to new employees who were unemployed for more than 26 consecutive weeks immediately preceding their employment by the taxpayer. New employees are those individuals who were not employed by the taxpayer prior to January 1, 1977. No credit would be allowed where the employment of a new employee replaces any other individual from employment with the taxpayer. The amount of the credit may not exceed the taxpayer's liability for the taxable year. A three-year carryback and seven-year carryforward of excess credits is provided. No credits could be carried back, however, to taxable years ending before December 31, 1976.

S. 732 (Senators Baker, Javits, Domenici, Bellmon, Chafee, Curtis, Danforth, Goldwater, Griffin, Hatch, Hayakawa, Lugar, McClure, Percy, Schmitt, Schweiker, Stafford, Tower, and Young)—A Permanent Reduction in Corporate Tax Rate for Small Corporations

Provides for a permanent reduction in the "normal" tax rate for corporations from 22 percent to 18 percent and a reduction in the "surtax" forms 26 percent to 30 percent—leaving the top rate at 48 percent. The bill also increases the corporate surtax exemption to $100,000 (to be taxed at 18 percent) on a permanent basis. This would be effective for taxable years ending after December 31, 1977.

S. 841 (Senator Matsunaga)—"The Small Business Employment Tax Credit Act of 1977"

Provides for an employment tax credit equal to 50 percent of the wages paid to additional employees. The credit would be limited to 10 new employees or less and to a maximum of $80,000 per year. Special provision is made for the hiring of unemployed persons who are under 21 years of age, Vietnam War veterans, individuals who have been unemployed for 15 weeks or longer, individuals 55 years of age or older, women or members of minority groups, and handicapped individuals. If the tax credit for new employees exceeds tax liability, the employer will be entitled to a tax refund. This credit would not be available after 1981.

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